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# DOMINION - PROVINCIAL CONFERENCE

SUBMISSION BY

HON. JOHN B. MCNAIR, K. C., PREMIER

ON BEHALF OF

THE GOVERNMENT OF NEW BRUNSWICK

JANUARY 24, 1946.





DOMINION-PROVINCIAL CONFERENCE

Submission by

Hon. John B. McNair, K.C., Premier

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Practically six months have elapsed since the present Dominion-Provincial Conference assembled. It convened on the invitation of the Dominion Government to study and devise new and better relationships and working arrangements between Governments in Canada as they face the task of post-war planning and reconstruction.

At the opening session a series of proposals were submitted by the Dominion. These were accepted by the Conference for analysis and study and as a basis of conference discussions.

Such proposals were founded on a widening conception of the responsibility of Governments to fashion and implement policies calculated to improve the social, economic and cultural conditions of all the Canadian people and, by strengthening our domestic fabric, better to fit our Nation for a constructive, progressive and courageous role in the new field of world government.

The ends envisaged call for a high degree of co-ordination of effort and co-operation at all levels of legislative and administrative activity in Canada.

The practical purposes which dominate the proposed Dominion programme are the assurance of steady employment and production throughout Canada, the maintenance of a reasonably high national income and purchasing power, equitably distributed, and adequate standards of health,



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educational and welfare services throughout the Provinces.

The programme advanced by the Dominion hinges upon the proposed new financial arrangements with the Provinces. These represent an adaptation of principles contained in the present Wartime Tax Agreements which terminate shortly. It is suggested that new agreements be entered into, effective for a limited period of time, whereby the Provinces will continue to vacate the corporation and personal income tax fields and as well relinquish to the Dominion the collection of Succession Duties. To compensate them for their abandonment of these revenue sources and place their finances on a more stable footing the Provinces would be paid by the Dominion annual grants calculated on an agreed formula. These grants would replace former pre-war subsidies and the annual payments under the existing Tax Agreements.

The annual grants suggested were stated to be, in the opinion of the Dominion, sufficient to enable the various Provincial Governments to discharge their constitutional responsibilities and functions and generally provide the services expected of them in the growing field of public administration. That suggestion of their sufficiency was naturally open to question and has been the subject of much discussion during the series of meetings which have taken place.





The formula suggested by the Dominion for determining the grants to the Provinces is in part simple and definite and in part very indefinite and complex. During the life of the agreements yearly payments would be assured the Provinces at the rate of \$12 per capita of their 1941 population (guaranteed as an irreducible minimum) to be increased rateably with annual population growth and the rise in value in any year of gross national production over the 1941 level.

Both principles are open to criticism as yardsticks for fixing the grants.

The gross national production factor introduces an element of uncertainty and may tend to embarrass the Provinces in periods of economic recession. Stability and certainty of revenues are essential for sound provincial planning and financing, particularly for the smaller Provinces. At a time when, through conditions quite beyond provincial control, other revenues might be decreasing the Provincial Government would find its contribution from the Dominion Treasury also shrinking.

The converse of the Dominion proposal whereby the grants to the Provinces would increase proportionately with a decrease in the value of the gross national product would appear more realistic and easier of support.

The New Brunswick Government would suggest that the





gross national production factor might well be dropped in the computation of the grants and that during the period covered by its agreement each Province be given a basic fixed annual grant not subject to any fluctuation.

The \$12 per capita feature is likewise open to challenge. Its flat rate application would ignore completely the fiscal need of the different Provinces. The omission of any suggestion that the existing level or standard of provincial services and their needs should be given consideration is strangely at variance with all previous approaches to Dominion-Provincial financial arrangements.

From the foundation of Confederation Provinces have felt constrained to seek special financial terms with the Dominion, with some degree of success. A more recent instance was connected with the work of the Duncan and White Commissions, which resulted in new fiscal need subsidies for the Maritime Provinces. Again fiscal need was acknowledged as a sound principle in the Financial Plans of the Rowell-Sirois Commission, which at the 1941 Dominion-Provincial Conference were accepted in principle by the Dominion Government. In addition, in the 1941 Budget Proposals of the same Government fiscal need was recognized as a legitimate element in determining the annual amounts to be paid the Provinces and was applied in





certain of the Wartime Tax Agreements which resulted.

The present financial proposals have a peculiar incidence for New Brunswick. Our Province is unique in that our municipalities were occupying the income and corporation tax fields in a substantial way. This historic condition has created for them a vested interest in such fields which cannot be disregarded.

Under our present Tax Agreement the Dominion has been paying annually on account of the New Brunswick municipalities the sum of \$1,384,410.23. These monies, as received by the New Brunswick Government, have been distributed among the municipalities as compensation for their wartime abandonment of the taxation fields mentioned. Comparable provision must necessarily be made for them in the present negotiations.

No one can reasonably suggest that their need should be met out of the flat rate per capita grant proposed for all Provinces. On the basis of the annual sum that the Dominion has been providing for our municipalities during the war years the Government of New Brunswick would be obliged to divert \$3 and upwards of every \$12 received by it to indemnify the municipalities. To state that position is sufficient to prove the case for special consideration for New Brunswick having in mind that an avowed purpose of the Dominion's proposals is to place each Provincial Government in a position to provide the ser-





vices for which it is constitutionally responsible.

As already indicated during committee discussions the New Brunswick Government must seek definite modifications of the financial plan advanced by the Dominion and attach certain conditions to any acceptance thereof. Such may, in the main, be summarized as follows:

1. A larger basic grant must be available to the Province than would result from the application of the Dominion's formula. A minimum grant based on an allowance of \$12 per capita of 1941 population is quite inadequate to permit expansion of existing services and the adoption of desirable new services, many of which have been suggested by the Dominion in its general programme.
2. A special allowance or fiscal need subsidy should be available for New Brunswick to permit local and provincial services to be raised to the average standard prevailing throughout Canada without raising internal taxation beyond the general level in all Provinces. In particular provision must be made to meet the needs of New Brunswick municipalities.
3. The Dominion should undertake to avoid for the period of the agreements any action in the taxation areas belonging exclusively to it which will hamper the Provinces in their enjoyment of their remaining tax sources.





4. The Dominion should undertake to refrain during such period from entering any area of direct taxation presently enjoyed exclusively by the Provinces and should abandon certain federal taxes which represent recent invasions by the Dominion of the direct taxation field. Such are

- i. Gasoline tax
- ii. Amusement taxes
- iii. Tax on electric power consumption
- iv. Taxes on long distance telephone calls and telegrams

5. Dominion controls and restrictions which interfere with provincial financing in the American market should be removed.

Subject to such safeguards as have been mentioned the Government of New Brunswick favours for the suggested trial period of three years the adoption of the financial arrangements proposed by the Dominion Government.

This decision is, in no small measure, based upon the fact that acceptance of such plan involves no constitutional changes. With that in mind it is difficult for us to agree with those who profess to see in its adoption a threat to the Canadian federal system of government.

One can conceive of no more rational plan for the promotion of a true sense of national unity and the advancement of the welfare of all the Canadian people than





the assurance and guarantee for all governmental agencies in the land of the financial resources needed for the discharge by them of their constitutional obligations and responsibilities.









